



Congressional Budget Office

Association for Public Policy Analysis and Management

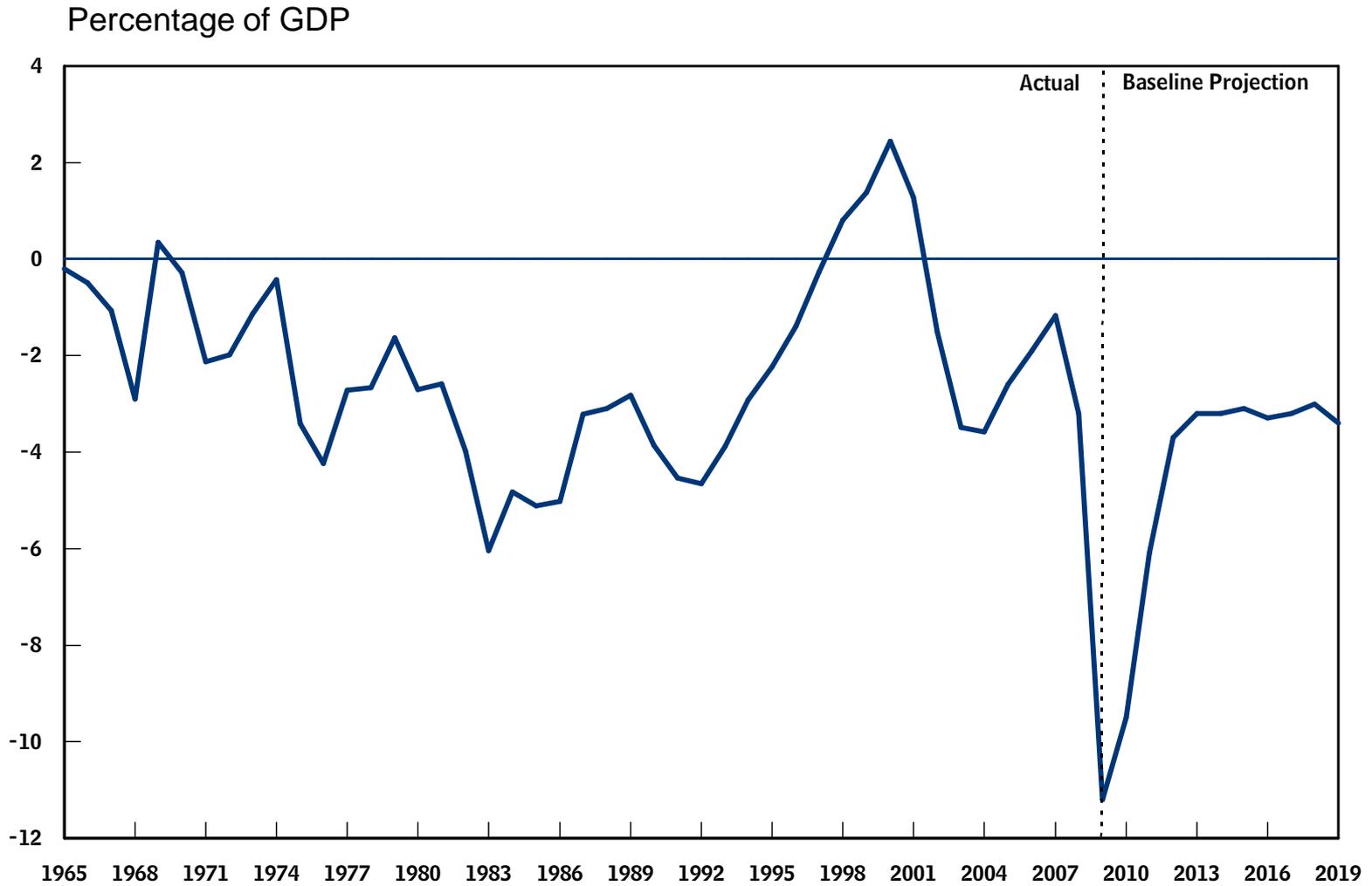
**Aging and Health:
The Challenges of Entitlement Growth**

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Director

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Federal Deficit or Surplus



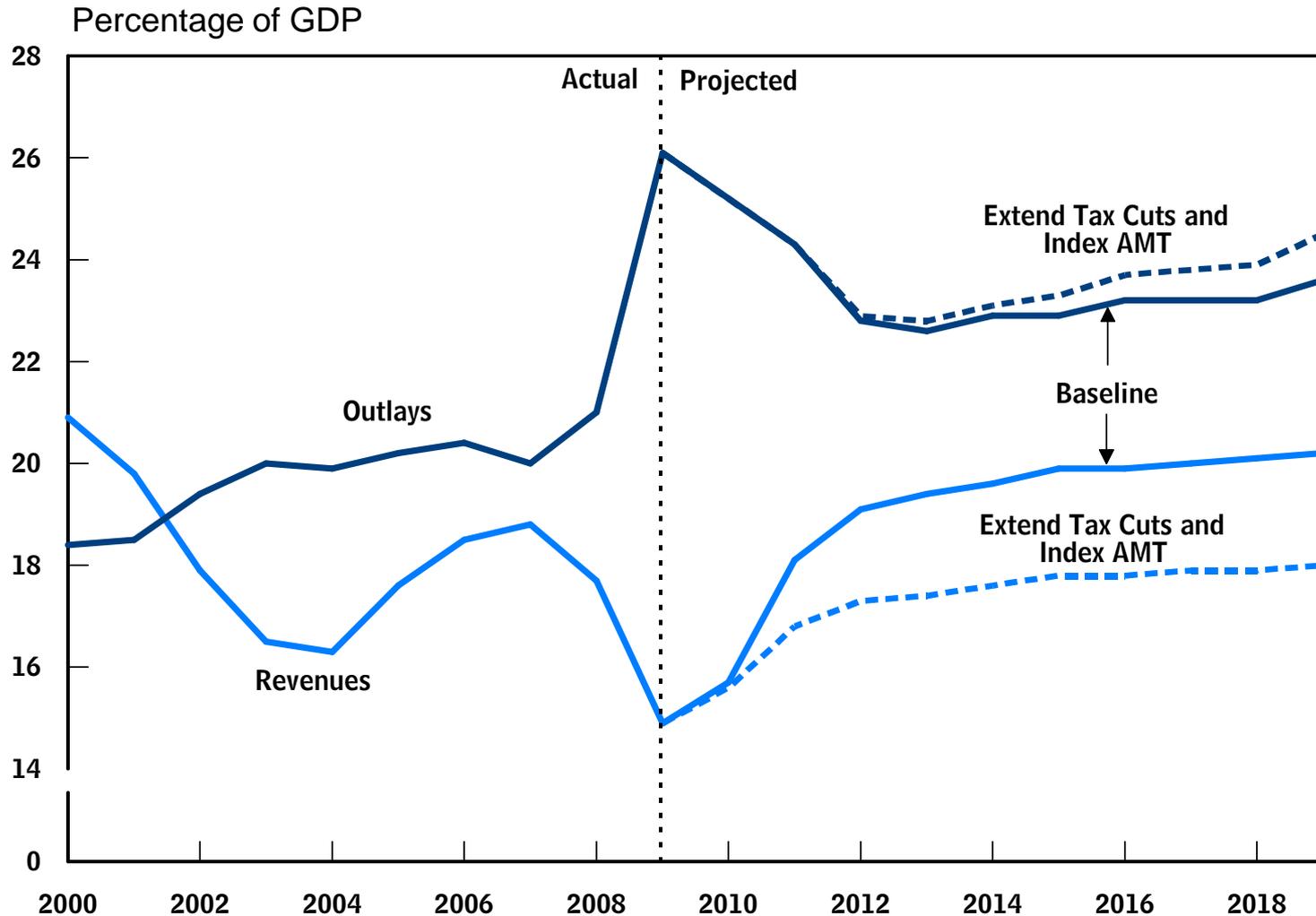


Three Reasons That the Fiscal Challenge Is Especially Acute

- Current *policy* as perceived by many people would generate much larger deficits than current *law* as captured in CBO's baseline.
- Federal debt is already very large relative to GDP by historical standards.
- Population aging and rising health spending will continue to push up federal spending under current law.

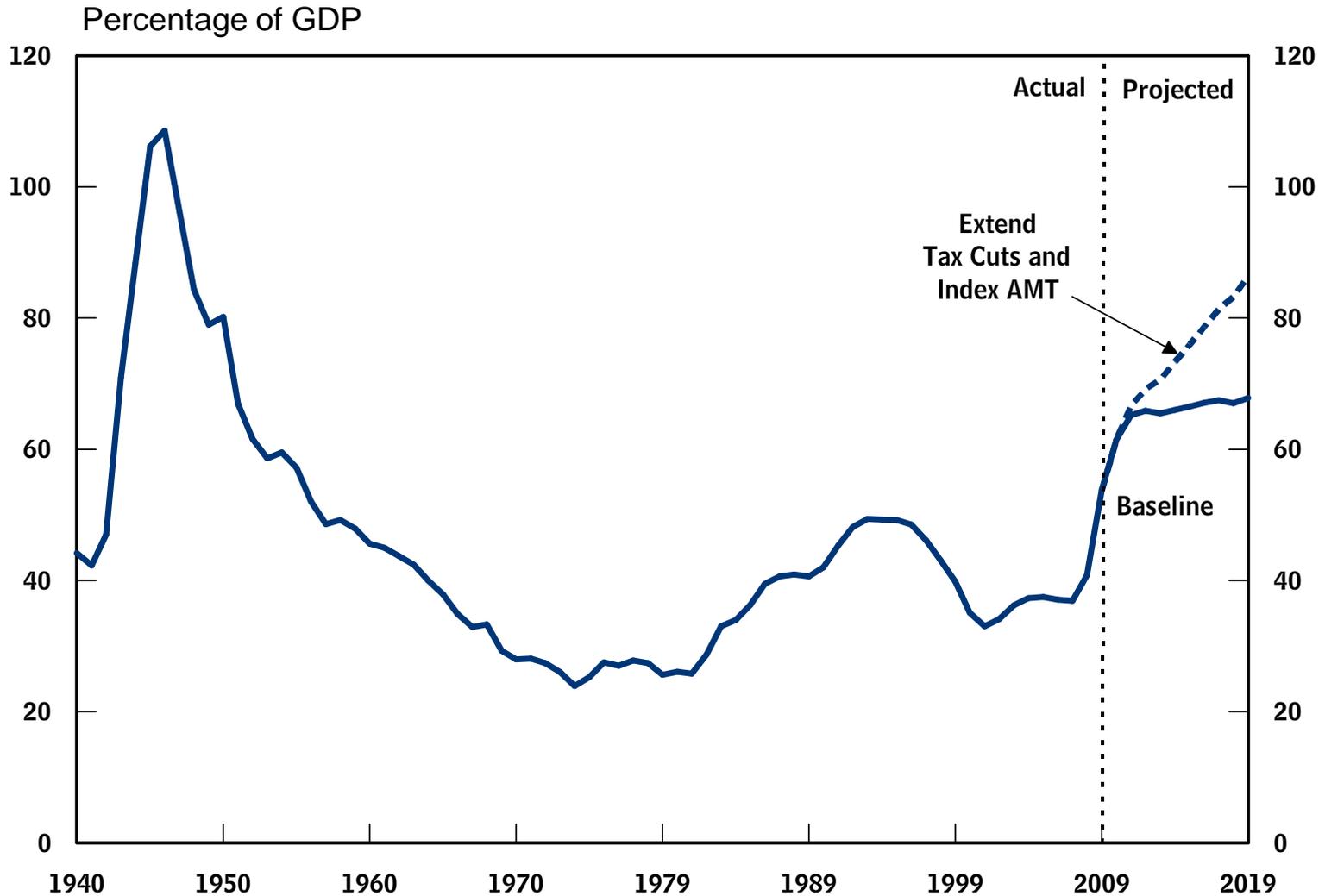


Revenues and Outlays Under Policy Alternative to Extend Tax Cuts and Index Alternative Minimum Tax



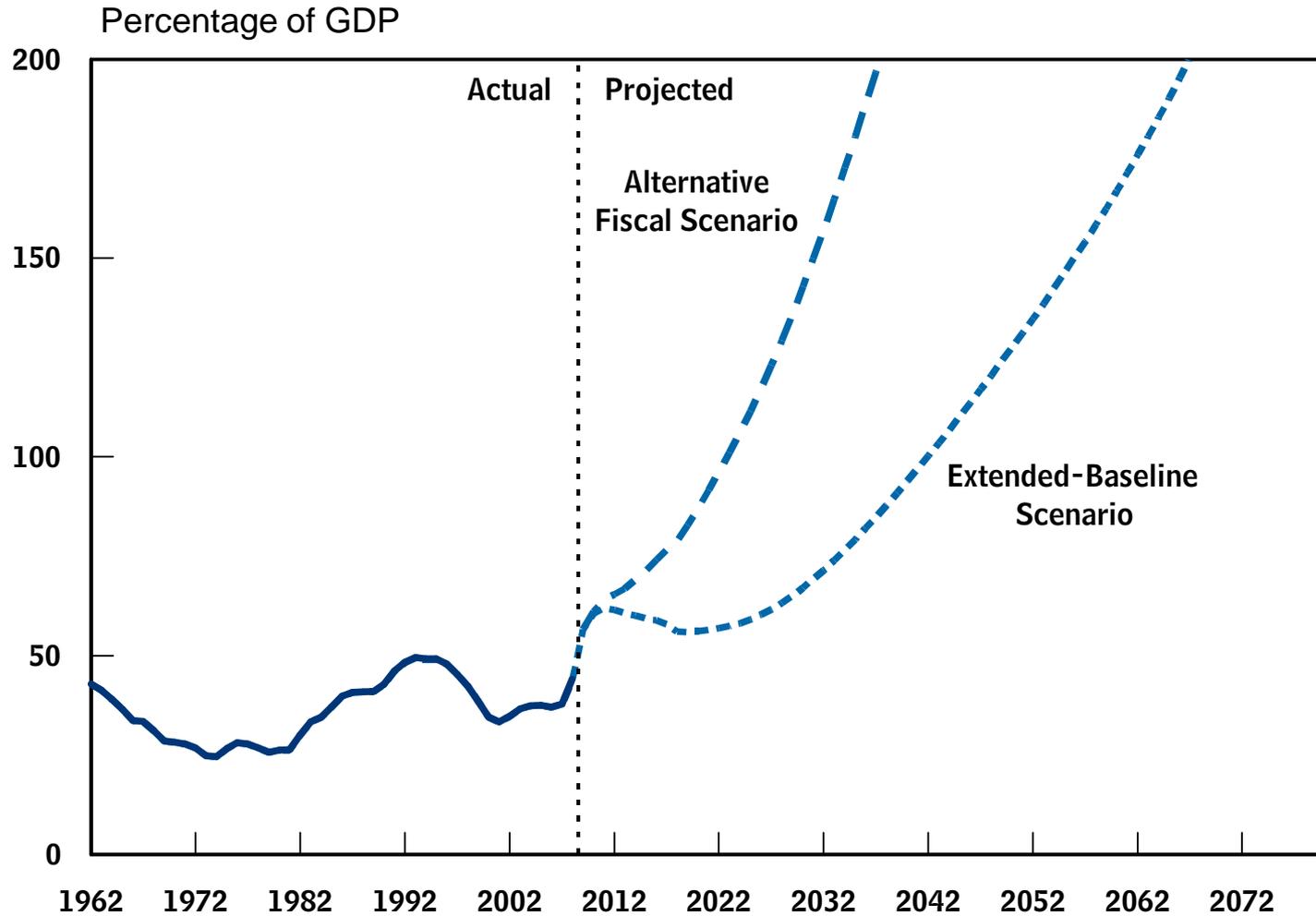


Federal Debt Held by the Public





Federal Debt Under CBO's Long-Term Budget Scenarios





Why Does Rising Federal Debt Matter?

- Possible Crises Induced by Debt
 - Capital flight from United States and resulting drop in value of the dollar and jump in interest rates
 - Pressure on Federal Reserve to raise inflation

- Ongoing Costs of Debt
 - Tax revenues used to pay interest rather than to finance current programs
 - Reduction in saving, investment, output, wages, and incomes relative to what would occur otherwise



Longer-Term Budget Projections

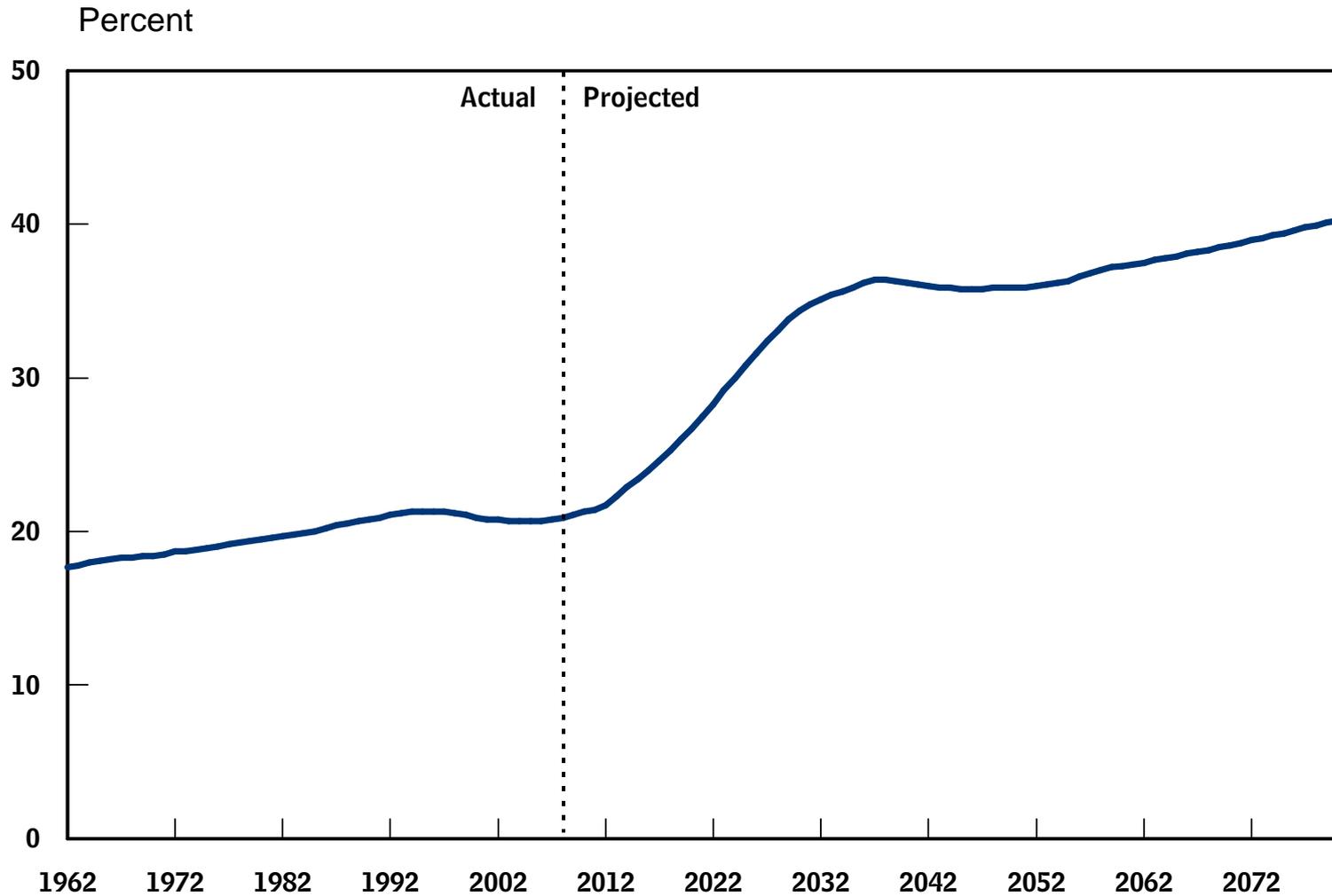
- CBO's Long-Term Model
 - Social Security
 - Medicare and Medicaid
 - Taxes

- Limitations of Long-Term Projections
 - Uncertainty, especially for health programs
 - Interaction with macroeconomic conditions

- Value of Long-Term Projections
 - Highlight trends
 - Provide baseline for policy changes

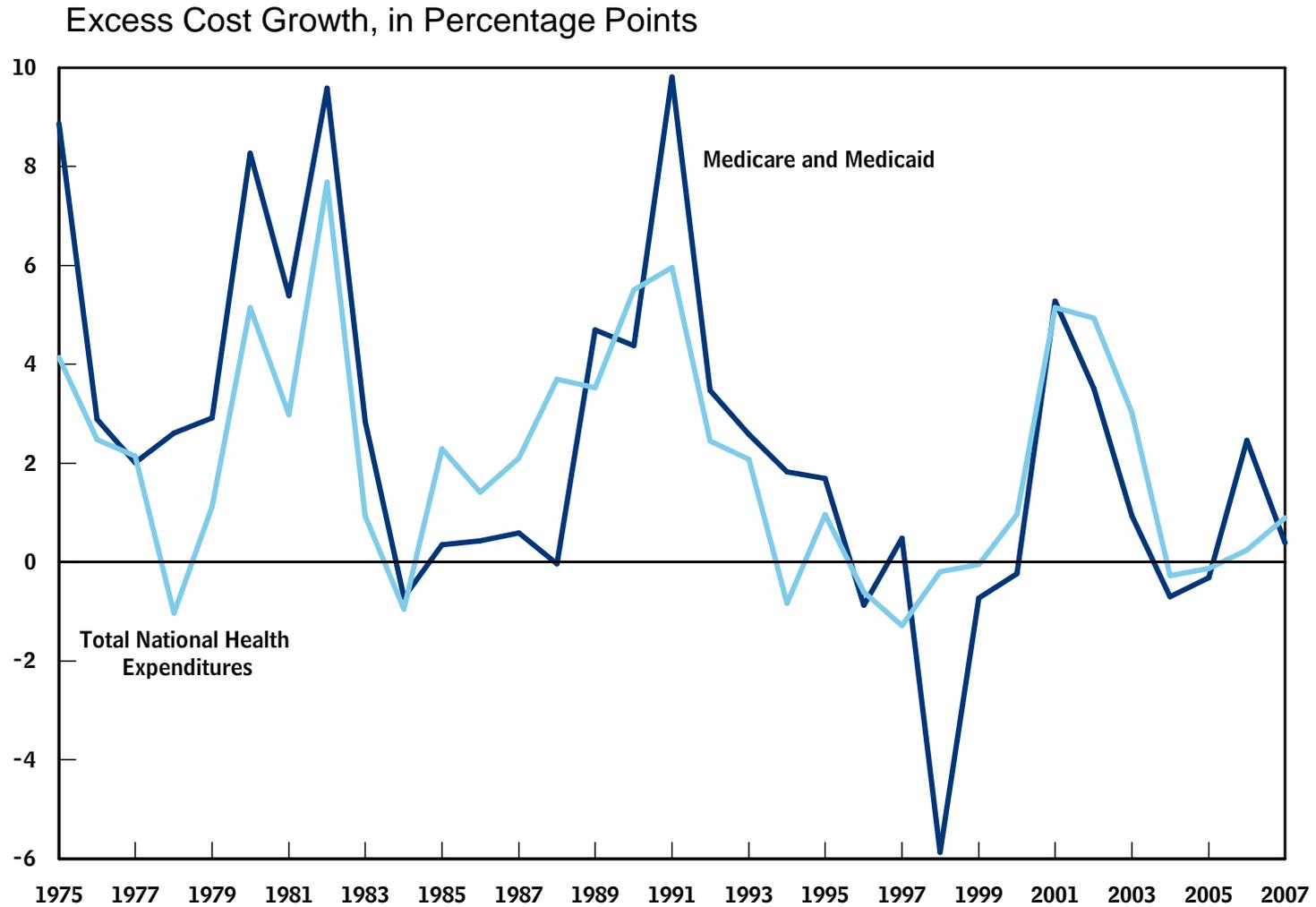


The Population Age 65 or Older as a Percentage of the Population Ages 20 to 64



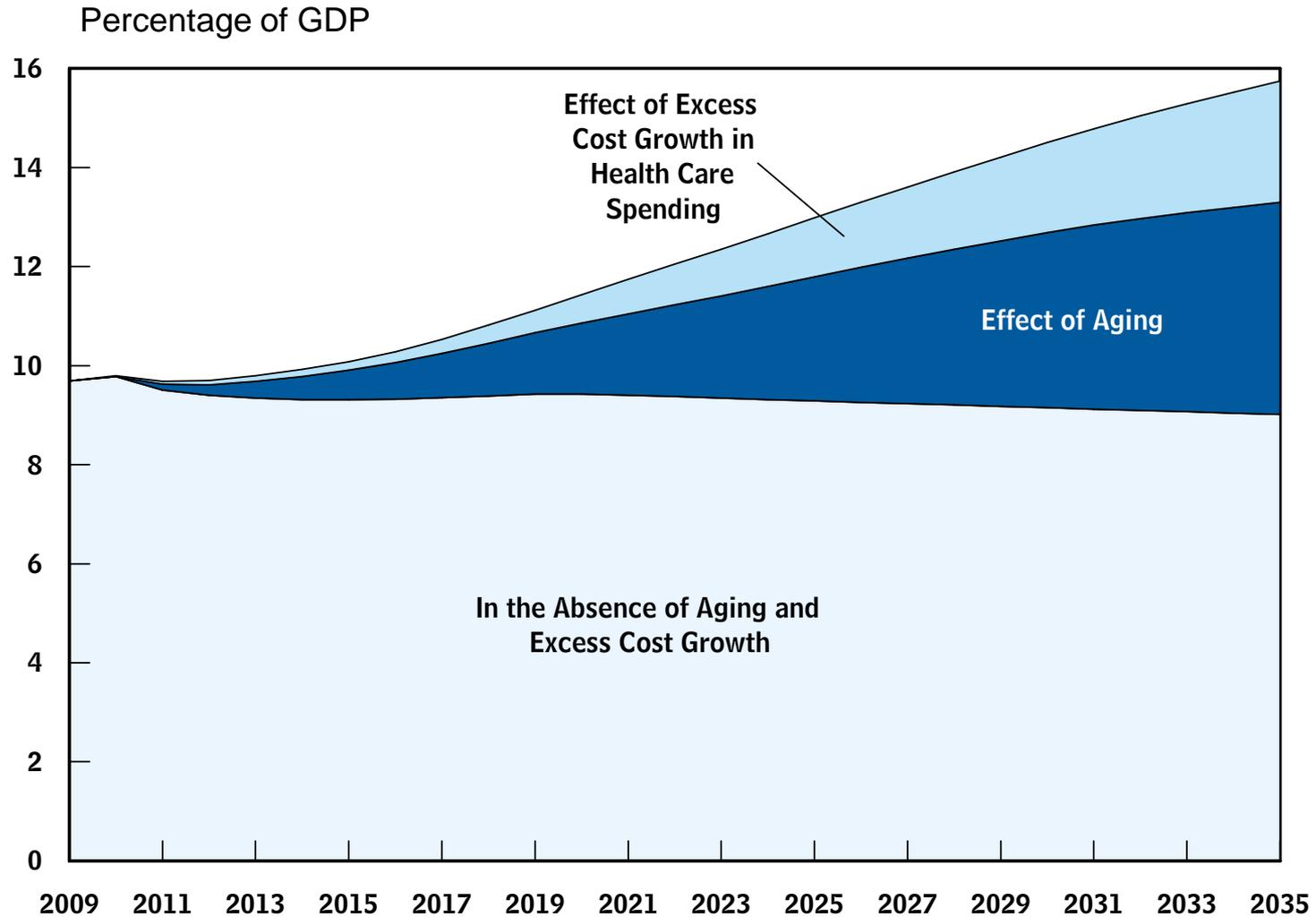


Rising Health Care Spending





Factors Explaining Future Federal Spending on Medicare, Medicaid, and Social Security



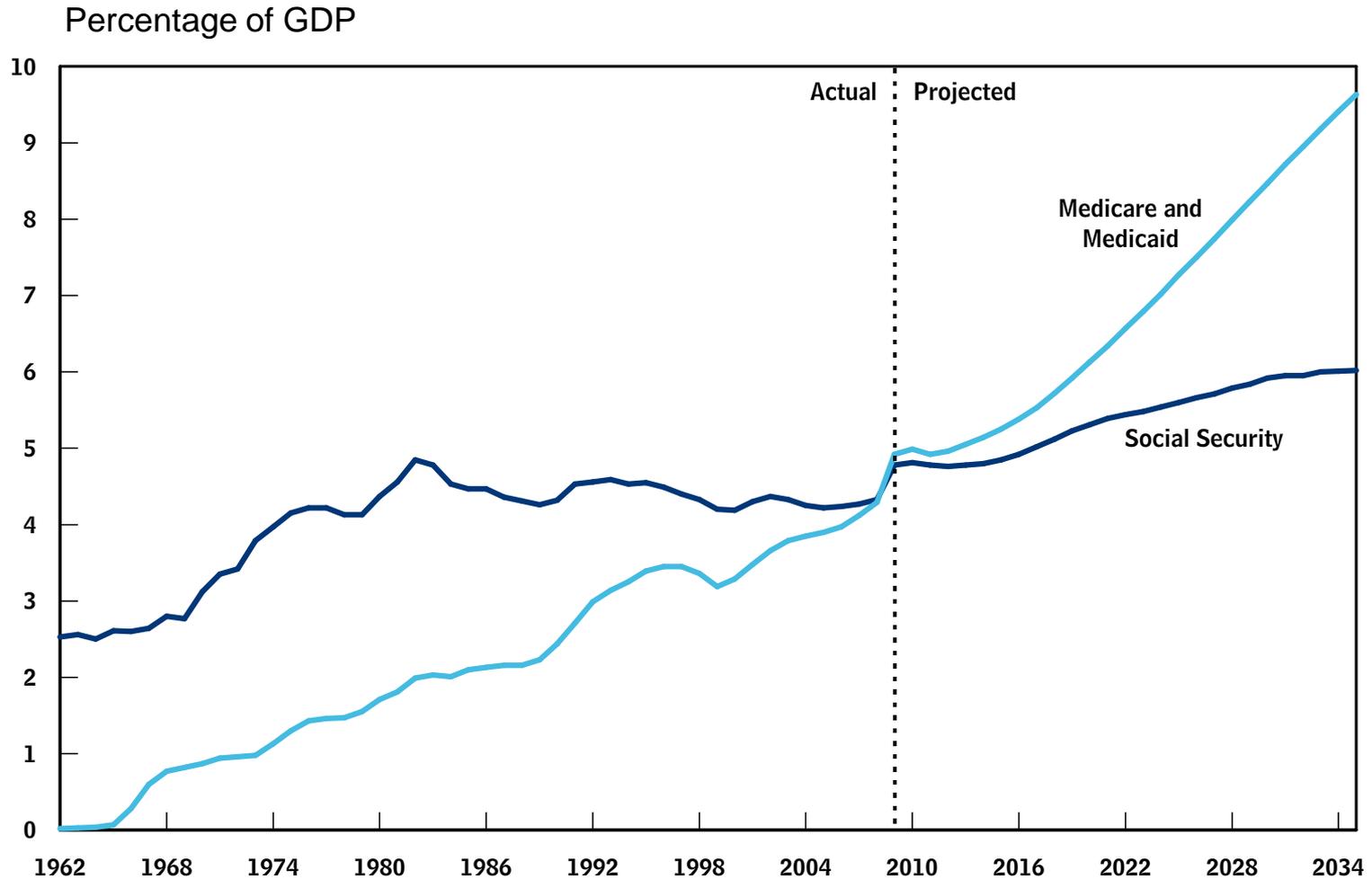


Shares of Growth in Spending for Medicare, Medicaid, and Social Security

	Share of Growth, 2009 to 2035
Medicare and Medicaid	80%
Social Security	20%



Federal Spending for Social Security, Medicare, and Medicaid





Some Policy Options to Reduce Projected Spending for Social Security

- Increase the Retirement Age
 - Social Security alone or also Medicare?

- Decrease Benefits
 - Across-the-board or targeted at higher-income beneficiaries or other subgroups?



Some Policy Options to Reduce Projected Spending for Medicare and Medicaid

- **Decrease Payment per Health Care Service**
 - Reductions relative to current law play a significant role in current reform plans.
 - Will reductions lead to increased efficiency, lower income for providers, or reduced access to care or quality of care?

- **Decrease Number of Health Care Services Provided**
 - Could government policy improve people's health, and would that reduce demand for services?
 - What is the appropriate role of comparative effectiveness research?
 - Can payments to providers be restructured to reward efficiency and value rather than rewarding the number of services provided?
 - Should beneficiaries pay more in copayments and deductibles?



Some Policy Options to Raise Revenues

- Increase Rates in Current Tax Structure
 - Reform current structure to make tax system simpler, more efficient, or more fair?

- Institute a New Tax
 - Value added tax?